

The Conference
Board of Canada



Canada's Indigenous Tourism Sector

Assessing the Tax Impacts of ITAC's Tourism Growth Strategy

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Contents

3
Key findings

4
Introduction

6
Results

8
Appendix A
Bibliography

9
Methodology

Key findings

- By 2030, the Indigenous tourism sector could operate at a significantly larger scale if strategic investments are made.
- The direct impact of the additional tax revenues generated from expanded business operations of the sector is estimated at \$430 million in nominal terms.
- Of the \$430 million, approximately \$203 million is tax revenue attributed to the federal government, with \$211 million attributed to provincial governments and a further \$16 million to municipal or local governments.
- Including supply chain effects, the combined direct and indirect impact on tax revenues is estimated at \$684 million.
- Of the \$684 million, approximately \$335 million is tax revenue attributed to the federal government, \$315 million to provincial governments, and a further \$34 million to municipal or local governments.
- Based on these estimates, it would take the federal government just over five years to recoup its initial \$1.75 billion investment toward the capital projects proposed by the Indigenous Tourist Association of Canada (ITAC).



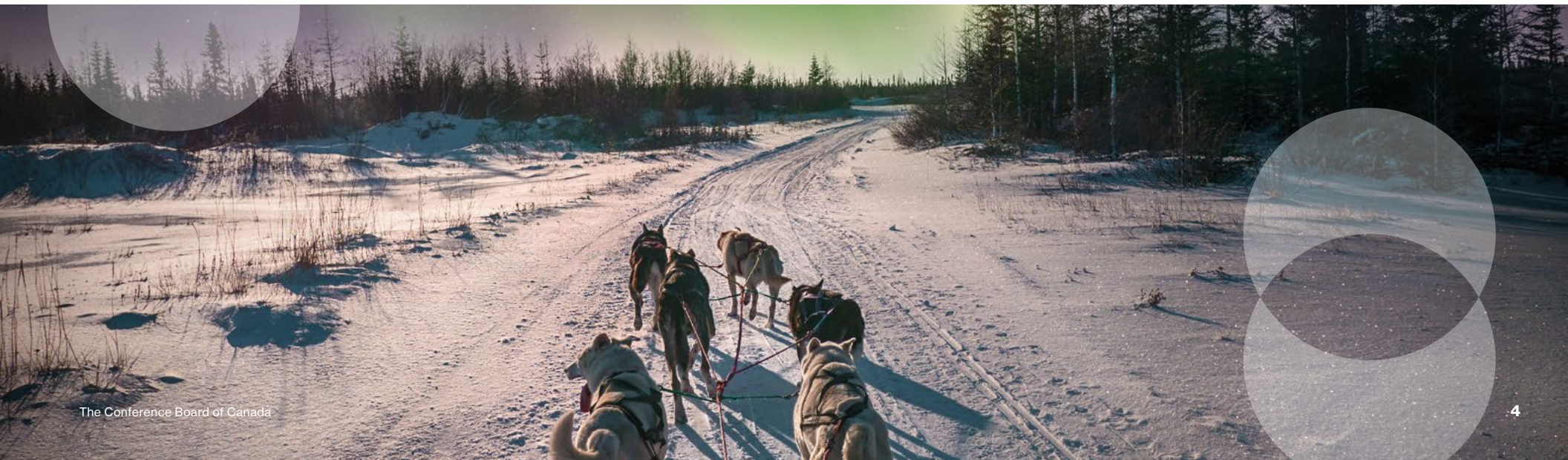
Introduction

ITAC envisions that funds from its Tourism Growth Strategy will help create and refine tourism products that attract significantly more visitors from domestic, U.S., and international markets.

Previous report provides an objective economic analysis of potential strategic investments proposed in the Tourism Growth Strategy. These investments would be made by different levels of government together with industry partners and ITAC to develop and expand numerous Indigenous tourism destinations across Canada.¹

In this briefing, we estimate the amount of tax revenue that could be collected by various levels of government from the operations phase (assumed to be in 2030). This revenue is related to ITAC's \$2.4 billion spending plan, of which \$1.75 billion will go to destination development. We divide these amounts into both the direct and indirect impacts and discuss the results for both in the following sections. We conclude this briefing with a simple calculation showing how long it will take for the federal government to recoup its initial investment provided to ITAC (assuming the projections hold true).

¹ For more details, see The Conference Board of Canada, *Impact of ITAC's Tourism Growth Strategy on Canada's Indigenous Tourism Sector*.



We use our internal economic impact model to estimate the direct and combined impacts of the new investment on taxes. We define these terms as the following:

- **Direct impacts** are associated with the incremental revenues of tourism businesses benefiting from the \$1.75 billion in destination development funds (either as a recipient of the funds or from additional tourism activity generated by the funds) in 2030.
- **Combined** (direct and indirect) impacts include “spin-off” impacts to other businesses through the supply chain – i.e., the purchase of food sold at an Indigenous tourism business.

In the following section, we share the direct and combined impact results generated from our model. We then discuss the results of the model and the implications of the figures produced. This includes a brief return on investment (ROI) analysis with regard to the funding of ITAC capital projects, if made on behalf of the federal government.



Results

Direct impacts

The estimated yearly direct tax revenues that would flow from ITAC's Tourism Growth Strategy are provided in tables 1 and 2.² These figures represent the annual taxes in nominal terms generated by the infrastructure spending and operational activities attributable to destination development projects once they are fully scaled-up (by 2030).

Table 1
Direct impact on taxes (including exclusions) by category
(C\$ millions)

Category	Amount
Federal sales tax	74
Provincial sales tax	112
Municipal property tax	16
Social security (CPP/EI/payroll taxes)	92
Other federal/provincial (import duties, excise tax)	25
Federal corporate tax	19
Provincial corporate tax	13
Federal personal income tax	47
Provincial personal income tax	33
Total taxes	430

Sources: The Conference Board of Canada.

² The derivation of taxes required additional calculations to account for the degree to which exclusions might apply for Indigenous tourism businesses, workers, and customers.

The direct revenues vary, based on the type of tax being levied. For example, approximately \$74 million could be collected annually by the federal government through sales taxes, while personal income taxes would generate about \$47 million. Similarly, aggregate sales taxes collected by all the provinces could tally up to \$112 million. The total amount of tax revenue generated from tourism businesses directly benefiting from the capital investments is approximately \$430 million (see Table 2).

Table 2
Breakdown of economic benefits from destination development initiatives and strategic investments
(C\$ millions)

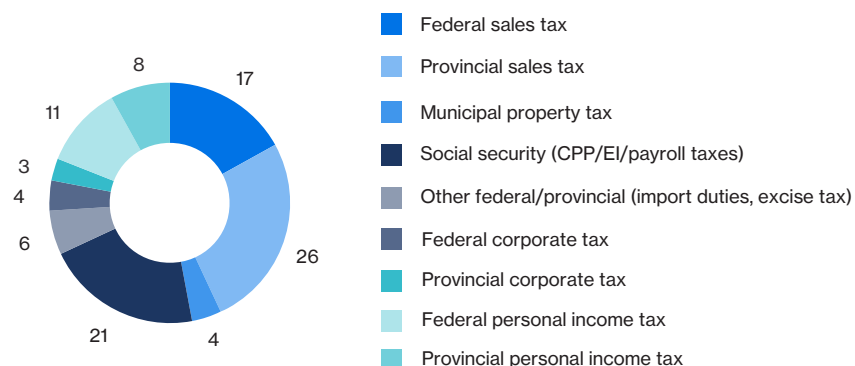
Direct impact on taxes (by level of government)	Amount
Federal government	203
Provincial government	211
Municipal/local government	16
Total taxes	430

Sources: The Conference Board of Canada.

The shares of the estimated yearly direct tax revenues are provided in Chart 1. We see that the largest share of tax revenues would be generated by provincial sales taxes (26.0 per cent), followed by social security (CPP/EI/payroll taxes) (21.0 per cent), and federal sales taxes (17.0 per cent). The smallest share of tax revenues would come from the provincial corporate tax, amounting to 3.0 per cent of the direct impact.

Chart 1

Direct impact effect on taxes (before exclusions) by category (per cent)



Source: The Conference Board of Canada.

Combined impacts

Including spin-off impacts to other businesses, the combined amount of tax revenue generated from the \$1.75 billion investment is estimated at approximately \$684 million in nominal terms (see Table 3). Of that, \$430 million was attributed to direct impact, with the remaining \$254 million being attributed to spin-off benefits to other businesses in the economy via the supply chain.

Given these estimates, it is possible to estimate the length of time it would take for the federal government to recover financial contributions that support the capital investments identified in ITAC's Tourism Growth Strategy. Based on the combined tax impacts, whereby the federal government receives approximately \$335 million in tax revenues per annum, the initial investment of \$1.75 billion would take just over five years to recoup its initial investment.

Table 3

Summary of key indicators for the Indigenous tourism sector in Canada (C\$ millions)

Combined impact on taxes (by level of government)	Amount
Federal government	335
Provincial government	315
Municipal/local government	34
Total taxes	684

Sources: The Conference Board of Canada.

Appendix A

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The Conference Board of Canada. *Impact of ITAC's Tourism Growth Strategy on Canada's Indigenous Tourism Sector*. Ottawa: The Conference Board of Canada, 2023. <https://www.conferenceboard.ca/product/impact-of-itacs-tourism-growth-strategy-on-canadas-indigenous-tourism-sector/>.

Methodology

This issue briefing examines the potential tax impacts resulting from the new funding initiatives proposed by the Indigenous Tourism Association of Canada (ITAC) in their Tourism Growth Strategy. The methodology used to derive the tax impacts involves applying economic impact multipliers that are generated from the Conference Board's in-house provincial/territorial economic impact model. The economic impact multipliers incorporated into the model are based on the most recent multipliers available from Statistics Canada. These multipliers are updated on an annual basis as they become available.

The analysis was completed on December 10, 2022.

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